



MEMORANDUM

LEGISLATIVE REFERENCE BUREAU

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To: Ald. Robert Bauman
From: Aaron Cadle – Legislative Fiscal Analyst
Date: September 5, 2014
Subject: Lease-to-Own Program for City-owned *In Rem* Properties

Per your request as Chair of the Special Joint Committee on the Redevelopment of Abandoned and Foreclosed Homes, this memo discusses the City's "Lease-to-Own" program to convey City-owned properties to qualified tenants who were renting the properties when the City acquired them *in rem* foreclosure.

Lease-to-Own Program Creation & Funding Timeline

March 20, 2012: Department of City Development was directed to create a plan to convey City-owned housing units to qualified existing tenants, develop a budget and recommend funding resources.

May 10, 2012: Department of City Development presented a proposed Lease-to-Own plan to the Zoning, Neighborhood & Development Committee.

January 1, 2013: \$150,000 was allocated in the 2013 Capital Budget for the Lease-to-Own program.

July 2, 2013: \$114,600 was allocated from the Contingent Fund for a fulltime Housing Specialist for the Lease-to-Own program.

July 2, 2013: \$300,000 was allocated for the Lease-to-Own program through Community Development Block Grant funding.

January 1, 2014: \$300,000 was allocated to the Lease-to-Own program as part of the 2014 Strong Neighborhoods Investment Program ("SNIP") Capital Budget.

Program Snapshot

- **153** City-owned single family homes were rented on 07/30/14.
- **131** City-owned duplexes were rented on 07/30/14.

Program Snapshot (con't.)

- **50** existing tenants have begun the process by working with a homebuyer counseling agency to develop an Individual Homebuyer Plan ("IHP" - see Program Steps 2 below).
- **23** properties are in "technical" rehab review as the City assesses in detail whether necessary improvements for code compliance and other improvements of the property's roof and major systems (plumbing, electrical and heating) needed to protect the buyer from possible major repair costs, are estimated to be less than the program's \$20,000/property cap. Tenants in these properties are nearing completion of their IHP.
- **7** properties at "out for bids" to make the needed improvements set forth in the "technical" rehab review.
- **1** property has been sold to its tenant.

To date, approximately \$13,000 has been expended through the program for a new roof.

Program Description

Tenant & Property Snapshot

- **\$500** minimum monthly tenant rent.
- **\$20,000** maximum property rehabilitation cost.
- **2-year** maximum Lease-to-Own term.
- **No Minimum** lease-period payments.
- **\$1** sale price.

Although DCD does not use these terms, LRB has adopted the following terms in describing the City's Lease-to-Own program for clarification:

- **Eligible Tenant** – A tenant who was renting an *in rem* foreclosure property when the City acquired it, and paying rent of at least \$500/month (DCD's estimate of the future costs of home ownership including mortgage, property taxes, insurance and water). The estimated cost to bring the property rented into code compliance and to make other improvements (roof and major systems repairs - plumbing, electrical and heating) to protect the buyer from possible major repair costs in the near future must not exceed \$20,000.

- **Qualified Tenant** – An Eligible Tenant who has developed and is working to complete an Individual Homebuyer Plan (“IHP” – Program Step 2 below).
- **Program Tenant** – A Qualified Tenant near successful completion of an IHP.

Program Steps

1. Eligible Tenants interested in buying the properties they are renting are referred to a homebuyer counseling agency (the City currently contracts with ACTS for this service) to assess the tenants’ income and credit history. Eligible Tenants deemed by the homebuyer counseling agency as likely to successfully meet the Lease-to-Own program’s requirements within 2 years become Qualified Tenants.
2. Qualified Tenants work with the agency to develop an Individual Homebuyer Plan (“IHP”) which may include:
 - a. Credit Repair.
 - b. Learning basic home-maintenance skills - tenant must commit to completing some do-it-yourself repairs to the property to qualify.
 - c. Establish a budget.
3. Qualified Tenants must complete their IHP within 2 years, so the most a tenant will pay in rent while in the program is \$12,000 (\$500/month rent for 24 months). There is no minimum for IHP completion and tenants may purchase their residence as soon as their IHP is complete, regardless of the number of months in the program, or rent paid.
4. Qualified Tenants nearing completion of their IHP’s become Program Tenants. The properties of Program Tenants are put through a “technical” rehab review – a more rigorous and thorough estimate of the projected cost to bring the property into code compliance and to make any other major improvements (roof, plumbing, electrical and heating) needed to protect buyers from possible major repair costs in the near future.
5. The Program Tenant signs an amended lease after the “technical” rehab review confirms needed repairs to the property are expected to be \$20,000 or less, stipulating the Program Tenant will mow the lawn, shovel snow and pay for water service separately. Out-pocket expenses for the Program Tenant will remain \$500/month - the rent to the City will be reduced by the water service paid directly by the Program Tenant. DCD requires

- the lease change to help prepare the Program Tenant for the upcoming responsibilities of home ownership.
6. After the "technical" rehab review is confirmed needed repairs to the property are expected to be \$20,000 or less; needed rehabilitation improvements are "put out for bids."
 7. If actual the bids to compete the needed rehabilitation is \$20,000 or less, the improvements are made and the property is sold for \$1 to the Program Tenant.

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Aaron Cadle
September 5, 2014